Supreme Court, U.S.
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No. 02-129

IN THE
Supreme Court of the United States

October Term, 2002

KUSTNER INDUSTRIES, S.A., *et al.*,
Petitioners,

v.

SCHREIBER FOODS, INC.,
Respondent,

On Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit.

REPLY FOR THE PETITIONERS

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September 18, 2002

RULE 29.6 LISTING

Petitioner Kustner Industries, S.A. has no publicly traded subsidiaries or parents. Kustner Industries is an indirect subsidiary of the following private corporations: Gazana B.V., Brolaf Industries, N.V., Berkelium Investments Limited, and Olive Holdings Limited.

Petitioners Great Lakes Cheese Co., Inc., Great Lakes Cheese of LaCrosse Wisconsin, Inc. and Great Lakes Cheese of Wisconsin, Inc. also have no publicly traded subsidiaries or parents.

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Reply For The Petitioner

I. The Respondent's Mischaracterization Of The Factual Record Cannot Obscure The Fact That The Question Presented Was Central To The Decision.

In its effort to avoid review, respondent mischaracterizes the record to suggest that the facts do not squarely raise the question presented. Indeed, respondent asserts that "[t]his case turned on its facts, not the Federal Circuit's statement of the law." Respondent's Brief in Opposition ("Opp."), p. 1. That assertion is wrong for two reasons.

First, the jury heard this case before *Pfaff v. Wells Electronics, Inc.*, 525 US 55 (1998) was decided, and therefore received an incorrect instruction on the "ready for patenting" prong of the on-sale analysis. As a result of the Federal Circuit's subsequent decision in *Group One, Ltd. v. Hallmark Cards, Inc.*, 254 F.3d 1041 (Fed. Cir. 2001), the test for determining whether the Kustner machine was "on sale" was also changed. *Schreiber Foods, Inc. v. Beatrice Cheese, Inc., et al.*, No. 00-1303, 2002 U.S. App. LEXIS 4448, pp. 16-17, (Fed. Cir. Feb. 27, 2002). The Federal Circuit did not suggest that Kustner's proof that the machine was "on sale" was insufficient under the pre-*Group One* standard in effect at the time of trial. Thus, neither the jury, nor the Federal Circuit could have decided this case "on its facts" because the standard applied on appeal to all aspects of the on-sale analysis was different from the standard in effect when the trial record was created.

Second, the record demonstrates that the only justification given by the Court of Appeals for the Federal Circuit for its refusal to remand was that petitioner had not produced evidence sufficient to meet the "formal offer for sale" requirement imposed by *Group One*. *Id.*

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A. Because The Jury Was Erroneously Instructed On The "Ready For Sale" Prong Of The On-Sale Bar, A New Trial Was Required Unless A Remand Was Futile.

The district court's instruction on the "ready for patenting" prong of the on-sale bar was flatly contrary to this Court's subsequent ruling in *Pfaff*. The district court's instruction required that, for the on-sale bar to apply, Kustner's machine must have been developed "to the point of demonstrating that it would work for its intended purpose." A193. In their closing argument, respondents seized upon this error, arguing that the instruction required an operable machine: "If you go out and try to sell something that's not operable, the patent law says that doesn't count." A5110. That instruction was, of course, substantially more stringent than the standard established by this Court's decision in *Pfaff* that the item or process need only be "ready for patenting" when offered for sale. *Pfaff*, 525 U.S. at 67.

Because the jury was improperly instructed to Kustner's detriment, the settled law of the Seventh Circuit (whose law governed non-patent issues) entitled Kustner to have its defense considered by a properly instructed jury, unless such consideration would be futile. *See, e.g., Roberts v. Sears, Roebuck & Co.*, 723 F.2d 1324, 1347 (7th Cir. 1983) (Posner, J. concurring).

Kustner's cross-appeal squarely raised the issue of the erroneous instruction[1] but the Federal Circuit did not decide it. Instead, the Federal Circuit avoided the issue by relying upon its recent *Group One* decision. In reliance upon its mistaken belief that *Pfaff* required evidence of "a formal offer under commercial contract principles" before an invention could be "on sale," the Federal Circuit held (again, we submit, mistakenly) that such evidence was missing and, therefore, a remand would be futile. *Schreiber Foods*, U.S. App. LEXIS 4448, pp. 16-17 (Fed. Cir. Feb. 27, 2002). The Federal Circuit's holding was,

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[1] *See* Corrected Brief for Defendants-Cross Appellants Kustner Industries, S.A., et al., p. 59, May 30, 2001.

accordingly, wholly dependent upon the mistaken legal premise that this Court's *Pfaff* decision required Kustner to prove a written, UCC compliant, offer, acceptance, contract or bill of sale.

B. There Was Overwhelming Evidence That Kustner Had, Under The Correct (And Existing) Standard, Offered An Accused Machine For Sale.

Respondent alleges that "petitioners ... had no clear and convincing evidence of any "offer for sale," even using the petitioners' definition of the term." Opp. at 1. No jury or court has ever found, held, or stated that proposition. Instead, the record was replete with substantial evidence that Kustner sought to sell its machines years before the bar date. Thus, it was error to deny Kustner the right to have a jury, charged in accordance with this Court's decision in *Pfaff*, decide its case.

Two of Kustner's potential customers, Sargento Cheese and Land O'Lakes, confirmed the testimony of Kustner's sales agent that they had been asked to buy machines prior to the critical date.[2] A4506-10; A4570-77. Schreiber itself established that the prototype was on sale prior to the critical date. The Chairman of Schreiber wrote to Kustner's president, feigning sufficient interest in purchasing Kustner's machine that Kustner's president offered to fly to the United States to meet him. A9401-2. In addition, Kustner's United States' representative wrote customers long before the critical date, informing them of Kustner's new machine (*see, e.g.*, A9460), and later describing its features to numerous customers. *See, e.g.*, A9515-9525. Kustner's sales agent testified to significant sales

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[2] Respondent labels this testimony "uncorroborated," relying on *Barbed Wire Patent*, 143 U.S. 275, 284 (1892) and *Finnigan Corp. v. ITC*, 180 F.3d 1354, 1367 (Fed. Cir. 1999). That reliance is misplaced. *Finnigan* expressly distinguishes itself from *Thomson S.A. v. Quixote Corp.*, 166 F.3d 1172 (Fed. Cir. 1999), on the basis that "*Thomson* did not involve uncorroborated testimony of a single witness." *Finnigan* at 1368. As *Finnigan* notes, *Thomson* found sufficient evidence to corroborate anticipation when the evidence came from a variety of sources. *Id.* The *Barbed Wire* case, on the other hand, concerned the weighing of conflicting oral evidence given by witnesses concerning events that happened thirty years prior to the litigation.

efforts prior to the critical date. *See, e.g.*, A4383; A4390; A4436; A4438; A9461-63; A9465; A9464; A9466-76; A9477-79; A9506-12; A9480-505; A9514 (detailing marketing and sales efforts, including sales presentations).

Unable to respond to the combined weight of this mass of commercial activity, respondent cherry-picks examples from the above list, dismissing them individually as not constituting clear and convincing evidence for lack of corroboration. Opp. at 3. That approach not only ignores the overall weight of the evidence, but also relies on misstatements of the record. For instance, respondent asserts that "Kustner was unable to produce more than the oral testimony of a single witness to each alleged offer. Not a single document corroborated the alleged offer for sale." Opp. at 2. In fact, *both* the salesman and Sargento Food's representative confirmed that they met, and that they discussed Sargento's purchase of a Kustner machine. *See, e.g.*, A4465-A4467; A4505-4510. If that were not enough, the salesman kept notes made during his sales presentation. *See* Exhibit 484. Contrary to respondent's assertion that price was not discussed, that there was no "offer to sell," and that the Sargento representative was not aware of any machine specifications, the record reveals that the representative was shown drawings of the prototype, had been given a general understanding of how the machine worked (A4509), understood the price of the machine to be around $600,000, and believed that the machine was available for purchase. A4510.

Kustner believes the evidence was sufficient to permit a jury to find that an "offer to sell" under the UCC had been made – but there can be no dispute that the evidence of substantial commercial activity met the correct, pre-*Group One* standard that "merely offering to sell a product by way of an advertisement ... may be evidence of a definite offer for sale ... even though no details are disclosed." *RCA Corp. v. Data General Corp.*, 887 F.2d 1056, 1062 (Fed. Cir. 1989). *See also id.* ("the policies or purposes underlying the on-sale bar ... define it"). Only by applying the more stringent *Group One* standard could

the Federal Circuit decide as it did. Thus, the issue here is the law declared by *Group One*, not the facts.

II. *Pfaff* Did Not, As Respondent Suggests, Effect A Change In The Meaning Of "On Sale."

Respondent asserts that "*Pfaff* clearly states that a "commercial offer for sale" is required" (Opp. at 7) and that "[t]his is not mere dicta, as the petitioners suggest (Pet. 9), but was the basis for this Court's holding that the patent at issue is invalid." Opp. at 8. Of course, it is for this Court to declare what its *Pfaff* opinion meant. *See, e.g., Rodriguez de Quijas, et al. v. Shearson/American Express, Inc.*, 490 U.S. 477, 484 (1989). We submit that respondent misreads the Court's opinion in *Pfaff*.

At least one Federal Circuit panel agrees with Kustner that *Pfaff* did not mandate the result in *Group One*. The panel which decided *Linear Technology Corp. v. Micrel, Inc.*, 275 F.3d 1040 (Fed. Cir. 2001)[3] noted that *Pfaff* "did not require the Court to decide what constitutes an offer for sale in the absence of an actual sale." *Linear* at 1048.

Even the *Group One* panel did not go so far as respondent. The *Group One* panel held that, although the issue was not actually presented in *Pfaff*, the language used by this Court "strongly suggests that the offer must meet the level of an offer for sale in the contracts sense, one that would be understood as such in the commercial community." *Group One,* 254 F.3d at 1046 (emphasis added). The *Group One* panel viewed this "suggestion" as sufficient to allow it to construct a new rule, or as the panel put it, "there is no binding precedent in this circuit that requires us to accept something less than an offer to contract." *Id.* at 1047. Respectfully, we suggest that, in looking to see whether its own precedent bound it, the Federal Circuit had the analysis exactly backwards. The panel was not considering an interstice of the common law, they were applying a statute,

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[3] Micrel's petition for a writ of certiorari is pending. Petition for a Writ of Certiorari, *Micrel, Inc. v. Linear Technology Corp.*, 71 USLW 3093 (July 3, 2002) (No. 02-39) ("Micrel Pet.").

35 U.S.C. §102(b). That statute did not address "offer to contract," but by its terms applied to "offer for sale." And, far from being an open invitation to depart from the plain language of the statute, *Pfaff* had reversed the Federal Circuit's use of a non-statutory term to govern the other prong of the on-sale bar.

As we demonstrated in our petition at pages 8-11, and as demonstrated in the petition of Micrel (Micrel Pet. at 18-25), there is no indication in *Pfaff* that this Court intended to jettison the settled law that the bar of §102(b) was erected by efforts to commercialize the invention. Indeed, were this Court intending to adopt the extra-statutory language requirement that an "offer for sale" meet the requirements of the UCC, it surely was odd that this Court referred to an inventor's "commercial marketing of his invention" as the triggering event. *Pfaff*, 525 U.S. at 67 (emphasis added).

III. *Group One* Effected A Clear Change In The Law.

Respondent suggests that *Group One* did not change or modify existing caselaw. Opp. at 9-10. Respondent is wrong. *Group One*'s requirement of a formal contract offer under the UCC is a fundamental change in the law.

As noted in our petition (and ignored by respondent), as early as 1829 this Court recognized the basic policy of encouraging prompt disclosure served by an "on sale" bar. Pet. at 14-15. By 1878, this Court had established that a patent would be invalidated by an inventor's prior use of an invention for a profit, as opposed to a prior use for experimentation. "Any attempt to use [the invention] for a profit, and not by way of experiment, for a longer period than two [presently one] years, before the application, would deprive the inventor of his right to a patent." *City of Elizabeth v. American Nicholson Pavement Co.*, 97 U.S. 126, 137 (1877). Indeed, in 1884, the on-sale bar invalidated a patent for roller skates because the inventor had distributed a price list for the product. *Plimpton v. Winslow*, 14 F. 919, 920-921 (Cir. Ct. D. Mass. 1883).

Micrel's pending petition for a writ of certiorari No. 02-39, traces the numerous instances since these early cases in

which commercial marketing activities have been held sufficient to meet the requirements of the on-sale bar, citing cases from the Federal, Fifth, Sixth, Seventh, and Ninth Circuits as well as decisions of the district courts and the Court of Customs and Patent Appeals. Micrel Pet. at 10-17.

Indeed, the panel in *Linear* itself recognized that *Group One* effected a change in the law, finding that, under the previous *RCA* standard the on-sale bar would apply (*Linear*, 275 F.3d at 1049), but that, under the "new legal standard" of *Group One*, which "changed the analysis," the on-sale bar did not apply. *Id.* at 1043. Thus, despite the respondent's protestations, the Federal Circuit has recognized that a change in caselaw occurred, which was dispositive of the outcome in the *Linear* case, and dispositive of the "on-sale" issue here.

IV. The Changed Legal Standard Raises Important Questions Of Law And Policy.

A. The Changed Legal Standard Is Important.

Respondent criticizes petitioners' statement of the law prior to *Group One* as a "non-standard," and a "vague standard." Opp. at 13. The "non-standard" criticized by respondent, however, has been "the standard" for more than a century until a panel of the Federal Circuit decided *Group One*. If there is some perceived flaw in the statutory standard Congress selected, it is for Congress to select the new one.

The on-sale bar's value to the patent system, and the care with which the on-sale bar must be addressed, has been recognized by this Court. In *Pfaff*, the Court recognized that the on-sale bar is a "carefully crafted bargain that encourages both the creation and the public disclosure of new and useful advances in technology, in return for an exclusive monopoly for a limited period of time." *Pfaff*, 525 U.S. at 63.

Whether considered from the perspective of Kustner, who learns to its dismay that it has been ensnared by a patent issued on an application filed more than a year after the "inventor's" company feigned interest in buying the very technology it

later accused of infringement, or the perspective of Micrel, the change in the legal standard is dramatic. Kustner faces a judgment exceeding $15,000,000. Micrel faces a patent applied for more than a year after the inventor began to commercialize his invention by receiving orders. Micrel Pet. at 25.

B. The Cases Discussed By Respondent Do Not Diminish The Shift In The Legal Standard.

In an effort to suggest that *Group One* worked at most a minor shift, respondent first relies on the rationale advanced by *Group One* and the cases bound to follow its holding. To be sure, *Group One*'s holding, and the Federal Circuit's penchant for constructing bright line tests lacking any tether in the statutory language, is contrary to petitioners' position. That subsequent panels have followed *Group One* is scarcely surprising – they are powerless to do otherwise. *See* cases cited *infra* at 10.

Perhaps the best indication that there has been a substantial shift in the offer for sale standard is to compare the language this Court used to describe the standard in *Pfaff* with the *Linear Technology* panel's recognition that *Group One* worked a shift. In *Pfaff* the Court expressed its understanding that "commercial marketing" was the trigger.

> An inventor can both understand and control the timing of the first commercial marketing of his invention ... we perceive no reason why unmanageable uncertainty should attend a rule that measures the application of the on-sale bar of § 102(b) against the date when an invention that is ready for patenting is first marketed commercially.

Pfaff, 525 U.S. at 67 (emphasis added; footnote omitted).

The panel in *Linear* explicitly confirmed the change worked by *Group One*. Indeed, the panel recognized that, under the pre-*Group One* standard, the marketing activity of Linear Technology satisfied the on-sale bar, but under the *Group One* standard, that activity did not. *Linear*, 275 F.3d at 1043, 1049.

Thus, the respondent's attempts to dismiss "as dicta" the language in *RCA* confirming that a patentee's commercial activity not rising to the level of a formal offer can meet the requirement of the on-sale bar must fail. Even if this language were dicta in *RCA*, it accurately states the holdings of cases from this Court and other circuits extending back over a hundred years. *See* Micrel Pet. at 10-17.

Finally, respondent cites *Seal-Flex, Inc. v. Athletic Track and Court Constr.*, 98 F.3d 1318 (Fed. Cir. 1996) for the flawed proposition that "[p]romotional activity for upcoming products not yet "on sale" is commonplace, to generate or to gauge market interest in the product, but has never been considered sufficient to trigger the on-sale bar." Opp. at 15.

If respondent is suggesting that *Seal-Flex* permits a potential patentee to engage in commercial marketing, it is wrong. The Federal Circuit found in *Linear* that "LTC's significant pre-release efforts at commercialization and its targeted advertising to end-users could have triggered the on-sale bar under *RCA Corp.*" *Linear*, 275 F.3d at 1049. *See also Keystone Retaining Wall Sys., Inc. v. Westrock, Inc.*, 792 F. Supp. 1552, 1556 (D. Or. 1991) (marketing presentations to individuals with no contracting authority sufficient to place an invention "on sale"); *TRW Financial Systems, Inc. v. Unisys Corp.*, 835 F. Supp. 994, 1003 (E.D. Mich. 1993) ("[M]erely quoting a price to a potential customer when the invention is sufficiently developed can render a patent invalid under 35 U.S.C. § 102(b).").

Respondent's reliance on a single line of *Seal-Flex*, purportedly distinguishing an exploration of the market and an unconditional offer to sell, is misplaced. First, the language is dicta, as the issue decided was not the amount of marketing activity necessary to trigger the on-sale bar, but whether a question of fact existed concerning the necessity of continued experimental use. *See, e.g., Seal-Flex*, 98 F.3d at 1323 ("In view of the investor's uncertainty [concerning the invention's capability] ... Rothwell's contacts with potential customers ... cannot be held on summary judgment ... to be an on-sale event"). Second, *Seal-Flex* arose on summary judgment. The panel was

attempting to determine the possible presence or absence of an issue of material fact, not to state the precise contours of a legal doctrine. Finally, and perhaps most telling, *Seal-Flex* itself noted that "[w]e do not, of course, hold that an inventor may avoid the on-sale bar while engaging in commercial activity .... The totality of the circumstances standard does not accommodate behavior that contravenes the policies underlying the law." *Id.* at 1324.

V. Petitioners Are Not Barred From Raising This Question.

Respondent errs in asserting that Kustner "acquiesced" to application of *Group One*. *Group One* was not even decided when Kustner filed its opening brief. Before the panel Kustner argued that the policy behind §102(b) would be thwarted if Kustner's activities were construed under *Group One* as not constituting an "offer for sale." Kustner Reply Br. at 12.

More importantly, the Federal Circuit has made it abundantly clear that panels must follow the holdings of prior panel decisions. *Jacobs Wind Elec. Co. v. Florida Dep't. of Transp.*, 919 F.2d 726, 728 (Fed. Cir. 1990). (panel "powerless" to overrule precedential opinion). Kustner sought, but was denied, an *en banc* hearing.

Conclusion

For the foregoing reasons and the reasons contained in petitioners' petition a writ of certiorari should issue to review the judgment and opinion of the Federal Circuit.

Respectfully submitted,

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